

Assessing payment adequacy and updating payments: Hospital inpatient and outpatient services

ISSUE: Each year MedPAC assesses the adequacy of current hospital payments and recommends payment updates for hospital inpatient and outpatient services.

KEY POINTS: Our approach for updating payments consists of two steps:

- Assessing whether current (FY 2006) payments are adequate, and
- Making a judgment about how much hospital payments should change in FY 2007.

Our determination of payment adequacy considers:

- Beneficiaries' access to care and changes in the capacity of providers
- Changes in the volume of services
- Changes in the quality of care
- Providers' access to capital
- Medicare payments and providers' costs for FY 2006

At the November meeting, we presented information on the first four factors in our framework. At this meeting, we will present analyses of the growth in hospital costs, the relationship of Medicare payments and costs in 2004 and projected to 2006, an analysis of hospitals with consistently negative Medicare margins, an analysis of hospital efficiency (reflecting measurements of resource use and quality), and draft update recommendations for inpatient and outpatient services. In addition, we will present an analysis of the relationship between outpatient volume and unit costs together with a draft recommendation.

ACTION: No decisions are needed. Commissioners should review the preliminary findings in preparation for the January meeting. This material will be included in the March report.

STAFF CONTACT: Jack Ashby (202-220-3737), Jeff Stensland (202-220-3726), Craig Lisk (202-220-3742), and Dan Zabinski (202-220-3722).